"Troubleshooting U.S. Policy Toward Russia"

Testimony of J Michael Waller before the Committee on International Relations,
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United States policy toward Russia has been tailor-made for exploitation by the gangster-bureaucrats, oligarchs, military revanchists and secret police officials ruling Russia today. Administration suppression of warnings and analysis about deteriorating conditions in Russia shows a calculated policy to prevent decision-makers, Congress, and the public from learning the truth and taking early corrective action.

That policy has rewarded and protected corruption in Russia, discouraged honest crime-fighters in Russia, breathed new life into anti-Western retrograde forces, undermined progressive and pro-Western forces in Russia, and dismissed and even retaliated against constructive critics at home.

Misguided U.S. policy toward Russia has rested on six fundamental points:

1. Unconditionally support the incumbent corrupt Kremlin regime and excuse away all its excesses;
2. Keep billions of dollars in cash flowing into the corrupt central bank with no accounting of how the money is spent;
3. Leverage none of the United States' immense resources to reduce corruption, promote openness and fairness, or to make sure the aid gets to where it is needed in Russia;
4. Place the bulk of bilateral aid resources into the pockets of U.S. companies, not into projects within Russia that brought rapid tangible benefits and hopes to the Russian people;
5. Ignore or suppress opinions and facts indicating that the policy might be failing;
6. Insist that the policy is working.

This is not a partisan issue. Former Senator Bill Bradley warned in a 1995 address to the Kennan Institute that administration policy toward Russia was becoming dangerously counterproductive: "Not only do we fail to influence the course of Russian reform, we actually create an anti-American backlash based on disappointed expectations."

The warning signs were everywhere from the beginning. Congressionally mandated reports by the General Accounting Office (GAO) have carried warnings and policy recommendations since at least 1994. Former diplomatic officials and intelligence officers more recently have testified recently to Congress about politically motivated suppression of classified diplomatic reporting, intelligence collection and analysis. Even the most casual observer could tell what was happening by reading the newspapers over the past five or six years.

And it was Russians first and foremost — officials, lawmakers, former officials, and journalists — who blew the whistle early and often. Some paid with their lives.

Prominent Russians warned the United States from the start, in public and in English, that IMF and other U.S.-led "aid" policies would harm Russian reform. Former Finance Minister Boris Fyodorov warned the U.S. in an April 1, 1994 *New York Times* op-ed that corrupt and retrograde politicians in Moscow were conning the West. Referring to a recently approved $1.5 billion IMF loan to the Russian Central Bank, Fyodorov cautioned:

> *"Russian Communists go to the United States . . . and lots of people are enchanted to call them democrats. . . . Is it not clear that the West is being manipulated to bury the remnants of reforms? Is it not clear that anti-Western and nationalist attitudes are becoming more and more prevalent?"*
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> *"The sooner the IMF's money is handed over, the sooner we will see a change in policy — in the wrong direction. . . . The $1.5 billion is immaterial to Russia, given the scale of its problem, and will be eaten up in a matter of minutes. . . ."*
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> *"The idea of those in power is to abandon Western-type economic policies with Western approval. . . ."*
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> *"Please do not believe Western experts who claim — just as our nationalists do — that Russia is so special that nothing in the civilized world applies to it. That is stupid. . . ."*
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> *". . . I think Western taxpayers have a right to know how and to what ends their money is being spent, when they have problems of their own back home. . . ."*
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> *"There are too many people in senior positions in the Russian government who think it patriotic to take as many loans as possible, and then quietly plot to obtain debt forgiveness and debt reduction. . . ."*
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> *"I do not believe in compensation from abroad for local incompetence and corruption. . . I am sure that a weakening of Western restrictions on aid will be detrimental to my country."*

Fyodorov said in the same piece, more than four years before the August 1998 crash, ". . . now that the IMF has extended this loan, on the ground that it will be politically beneficial to the West, I say: Lock up the advisers who give such counsel and throw away the key."

Few Russians dared be so outspoken. It was clear that the U.S. would not listen to them. Meanwhile, since the creation of the Gore-Chernomyrdin Commission in early 1993, the U.S. Embassy in Moscow was under pressure to portray all the commission's work as a success and to suppress bad economic news, including reports on corruption. E. Wayne Merry, a foreign service officer who headed the internal political section of the embassy from 1991 to 1994, and his successor, Thomas E. Graham, Jr., have commented publicly on this along with other former diplomats and intelligence officers including the CIA's former top Russia officer Fritz Ermarth. Among the diplomats' complaints:

- Gore-Chernomyrdin "became a Soviet-style bureaucracy in which success was mandatory, and any information that would contradict success simply was filed forever." (Merry)
- Gore-Chernomyrdin blocked embassy reporting "about the realities of crime and corruption . . . . failures in the privatization and general bad news." (Merry)
- Senior economics section officials in the U.S. Embassy Moscow in 1993 and 1994 blocked cables to Washington describing the nature and massive scale of corruption, and forbade them to be sent because they contradicted the official line. (Merry)
- A Treasury Department official in Moscow later pressured the political section not to send a cable to Washington about the role Russia's corrupt banks were playing in Russian politics. "The cable was killed." (Graham)

Pressure on aid contractors

At the same time, U.S. aid contractors were under similar pressure. A concrete example, with documentation, illustrates the problem. ARD-Checchi, a major contractor with the U.S. Agency for International Development (USAID) that ran the "Rule of Law" program in Russia, tried to suppress a noted expert in Russian crime and corruption from voicing concerns about the USAID-sponsored privatization program.

That expert, Professor Louise Shelley of the American University and a colleague of mine at*Demokratizatsiya* journal, had early evidence that organized criminal elements had exploited the U.S.-backed privatization program. In June 1994, ARD-Checchi Rule of Law project director David Bronheim sent an e-mail notice to offices in Moscow, Kiev and elsewhere with a warning about Dr. Shelley that appears to be intended to suppress and discredit her:

> *"1 – Prof. Shelley. Please treat this with enormous care. If I had known what Shelley was up to, I would have resisted Henderson's instruction to put her on the consulting contract. She is a bomb with a lit fuse. Her hobby horse is that the AID privatisation program has been exploited by organized crime.*
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> *"1.1 The privatisation program is the showpiece, flagship etc of the AID program in Russia. Shelley, without understanding what she is doing, is trying to sink the flagship. Under no circumstances can we be seen as helping that effort. We have no interest whatsoever in damaging the centerpiece of the AID program in Russia."*

There you have it: as frank an admission possible that experts concerned with corruption of U.S. assistance programs were simply not welcome. A copy of the e-mail is attached.

I am aware of a few other instances, but because the individuals involved remain involved in federally funded aid, exchange or educational programs, they are still unwilling to come forward for fear of retaliation.

Other evidence suggests something at work far larger than a USAID contractor suppressing warnings of corruption, and it fits the pattern suggested by Merry, Graham, Ermarth and other former officials. One such piece of evidence is a May 3, 1995 memorandum circulated by U.S. Agency for International Development Deputy Administrator Sally Shelton concerning how the

executive branch would deal with the now-completed, congressionally-mandated initiative to merge USAID with the State Department. The memorandum does not discuss Russia specifically, but it is important to the Russian aid debate because of its context. The memorandum, which Shelton sent to posts around the world, stated bluntly:

> "The strategy is to 'delay, postpone, obfuscate, derail.'"

The memorandum cited then-National Security Adviser Anthony Lake as saying that as part of the strategy, the administration would "tar" critics, in Lake's words, as "back-door isolationist." So critics, in the administration's view, even constructive critics who shared the policy goals of aiding reform in Russia, were not to be debated on the merits of their views or of the facts, but "tarred."

This was not a rogue operation of an over-zealous contractor or official: It began, at least, with the president's own national security adviser and permeated the bureaucracy. For this reason, honest critics who depend on federal contracts are fearful to voice their concerns for the record, lest they lose their livelihoods.

Official rejection of bad news about Russia spans the federal government, including the following instances:

- **"Barnyard epithet" incident.** A 1995 incident in which a CIA report discussing corruption among Vice President Gore's Russian interlocutors was rejected and angrily returned to the CIA with a "barnyard epithet" scribbled across the cover. "CIA analysts say they are now censoring themselves," according to the *New York Times*.
- **NASA corruption coverup.** A 1995 incident in which former NASA rocket scientist James Oberg revealed that Russian officials diverted NASA space cooperation money to build large houses for themselves in Star City. One "space mansion" owner was General Yuri Glazkov, whom a Houston TV reporter confronted at the Johnson Space Center. Instead of leaning on Moscow, NASA squeezed American journalists. Writes Oberg: "NASA's reaction was telling: It immediately clamped down on the U.S. news media" issuing "highly restrictive" new procedures to journalists "to make sure no visiting Russian space official had to go through such an ordeal again." A NASA spokeswoman commented, "What Russia does with their own money [sic] is none of our business." The White House refused to help the House Science Committee to find out what happened to the money.
- **Coverup of laser incident and reprisal against injured officer.** A 1997 incident in which U.S. Navy intelligence photographed a laser emanating from the bridge of the *Kapitan Man*, a Russian spy ship in American waters off Washington state. The U.S. Navy officer, Lt. Jack Daly, and his Canadian helicopter pilot, Capt. Patrick Barnes, suffered laser burns to their eyes. Yet the Clinton administration — led by Deputy Secretary of State Strobe Talbott, current U.S. Ambassador to Moscow Thomas Collins and others — not only covered up the incident, but directed a policy that ultimately ruined the careers and damaged the family lives of the two officers. A Navy Inspector General investigation substantiated Lt. Daly's allegations of "reprisal for reporting of the *Kapitan Man* laser incident."
- **FBI retreat from organized crime report.** A 1997 case in which FBI Director Louis J. Freeh suddenly backed away from his embrace of a Center for Strategic and International Studies

(CSIS) study of Russian organized crime, despite the FBI's participation in the study and the credibility lent to it by the project chairman, former FBI and CIA Director William H. Webster.

Kozyrev to Washington: Tell the truth.

Our government's dishonesty has not been lost on the Russians, some of whom credibly accuse Washington of dealing duplicitously with the Russian people themselves. Former Russian Foreign Minister Andrei Kozyrev is one of them. In a 1997 *Newsweek* essay, Kozyrev pleaded with the U.S. to be truthful with Russia about the deteriorating state of the bilateral relationship: "The Russian people must be told the truth." And by telling the truth, the U.S. must "resist capitulation to the old guard. . . . An entirely new generation of leaders in our country is waiting for this policy shift."

The shift never came. Last May, Kozyrev pleaded in the *Wall Street Journal Europe* for the U.S. to deal with Russia honestly, to stop pretending, and to tell the truth: "the relations should be honest and robust." In an epitaph for assistance programs, he wrote, "Western aid, however well intended, boils down to a payoff to the hard-liners." Washington's policy had undermined hope: "The made-for-TV hugs between the highest American officials and their Russian counterparts, be they reformers or not, concealed till recently" a relationship that smashed reform: "When the Russian government tried bold reforms, billions of dollars of aid were promised, but much less came." Furthermore, "When that aid opened the gates to corruption, and an oligarchic capitalism supplanted a liberal one, the West paid little attention."

Recommendations

1. Establish a "dissent channel" and whistleblower-type protections for private aid contractors and consultants to enable them to report problem areas without fear of retaliation.

2. With the new public diplomacy apparatus with the merger of the U.S. Information Agency into the State Department, the U.S. should mount a frank and honest public diplomacy effort in the former Soviet Union. The Russian people deserve it and so do the American taxpayers.